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Ethics in the Music Business and its  
Impact on Popular Music, Society  
and Culture

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# **Ethics in the Music Business and Its Impact on Popular Music, Society, and Culture**

## **ABSTRACT**

The entertainment industry possesses both the charisma and organizational architecture to act as an effective change agent in business and popular culture. The products of the music industry are heard and absorbed daily by millions of listeners whose opinions are shaped by what they hear and see.

The procedures of the music business have influenced a generation of business professionals, recording artists, and consumers by reinforcing postmodern tenets through questionable business practices, music lyrics and subject matter, and validation of riskier social norms.

The need to articulate the business practices of the music industry is addressed. A growing number of multinational entertainment conglomerates and domestic independent companies are beginning to readdress some of the issues that have raised suspicions in the past. Using ten time-honored principles will lay a foundation for ethical behavior and continued business practices in the music industry.

## **INTRODUCTION**

Rumors and suspicions of illegal and unethical behavior have hovered around the entertainment business since the turn of the twentieth century. One segment of the entertainment business that has not alluded suspicion is the recording industry. Stories of associations with organized crime families are linked with many major and independent record labels during the mid-twentieth century. Recording artists, personal managers and label executives have been the subjects of documentaries, exposés, and magazine interviews alleging all sorts of wrong-doings in order to “make it” in the music business. As one of the five leading exporters of U.S. products around the globe, the entertainment industry has tremendous influence on governmental policy and the economy. As the music industry continues to expand by acquisitions and mergers, so too, has grown concern by many observers who question the ethical principles of significant business practices.

In this paper, I will address the epistemological foundation of the ethics of the music industry. The meaning and value of several business practices in the music business form a core belief system that will be examined and weighed against business principles accepted by many multinational companies. Finally, organizational theory has had a unique expression in the evolution of the music business and I will take a brief look at its influence. I contend that music business companies can continue to operate successfully by adopting common business protocols and strategies that follow accepted standard ethical principles. Implementing time-honored business principles may increase global sales to record highs as other international conglomerates have experienced.

## **WHAT DOES ETHICS HAVE TO DO WITH THE MUSIC BUSINESS ANYWAY?**

The product of the music business—the music—at its foundation is an effective tool for communication. It has the potential of telling a story, conveying an emotion, or being the vehicle of celebration. Because of the universality of music, its impact can be felt in almost every aspect of life. In like manner, the business of music has an almost similar effect on our perception of the world around us. Within the parameters of ethics — the study of what we consider right and wrong — music and the business that promotes it play an important role in communicating its ideal “social norms.” These norms have challenged cultural and social boundaries, political and religious ideologies, and gender and individual rights. So, too, like a maverick running free with few hindrances along its trek across the wild, the music business has had few governmental and social regulations in its one hundred-year history.

## EPISTEMOLOGY

Since there have been few external obstructions, the music industry has been able to create its own epistemology that allows artists and industry moguls to execute their craft and business practices as they have so desired. Plato, who first developed the concept of idea, said that it was a form to which the human spirit tries to attain. The physical world is a representation of the real world (Stumpf, 1994). Many songwriters echo this sentiment in every lyric, note, and phrase of their musical creations. They seek to bring to light that which is hidden by emotion, conflict, and every other human experience. In doing so, they find fulfillment as a voice of reality.

The business that produces, manufactures and distributes pre-recorded product is run by a different ideal. The music industry is a joining of two very different passions — art and commerce. The creators of art seek expression of their experience and the images of life in an external medium. That medium need not have an audience for the creator's satisfaction for the expression of "the message" is deemed enough for a true artist. Commerce, on the other hand, needs an "audience" for growth.. The act of buying and selling a product to others stimulates more revenue and represents prosperity. The reality of prosperity drives commerce to continue to find products to sell to the public. These two ideals, art and commerce, merge in their own articulation of reality to offer consumers an experience of reality of life as experienced by the artist to as many people who desire to purchase it from the record labels. That is the reality that is created.

One issue that is addressed in the epistemology of the music industry is the relationship between the knower and the object known. The relationship between the music industry and the artist is a precarious one. It is a relationship of mutual exploitation to accomplish what each feels is important. The artist desires to express their inward images of reality externally. That expression is accomplished by songwriting, playing an instrument, writing lyrics, or singing. Performance is the vehicle through which the images are shared. The business side of the industry desires to make as much money from the sale of pre-recorded product as possible. It is not concerned with the images of reality. The more products it can sell, the more successful it becomes. What stimulates the business side is the commercial quality of the expression, not the expression itself. Artists know that in order to continue to create their art they need financial resources, therefore, they exploit the record labels for the financial resources to produce, manufacture and distribute their recorded products as well as for living expenses. Record labels exploit artists by giving them a small percentage royalty of the sale of the pre-recorded product – usually less than 10% - and keeping the rest. In addition, the record labels expect artists to pay for all the costs in producing the pre-recorded music. Both parties enter these agreements aware of the mutual exploitation and hope that the product of the artist will generate enough resources to pay for all the expenses.

The origin of knowledge can be attributed to rationalism that essentially states that knowledge is obtained deductively by reasoning (Nonaka and Takeuchi, 1995). The music business reasons that if a song sells many copies, it has done so because the song is good. If a song does not sell many copies, then it must not be a good song. Large sales represent good art. Poor sales represent poor art. Artists have a different outlook on their work. Each work of art is an expression of the artist and therefore a valid representation of their experience whether it sells many copies or not – it is all good.

The nature of truth lies within the individual and the company. What is truth for one artist may not be truth for another. Therefore, many songs are written about love yet are expressed differently. Themes may be similar but the expressions of truth of these themes vary from one individual to another. Likewise, the business of music relies on its own truth. Whatever song creates the most revenue for the company is considered truth. The effect on society and the message of the art is inconsequential. There must be truth in whatever generates the most revenue. What there is to know within the music business comes from within the individual and the company. As a result, there are two conflicting ideologies competing for

recognition — empiricism and rationalism. As the industry continues to grow and both elements get more powerful, the struggle for which ideologies will be more dominant will become the focal point of change.

## VALUE AND MEANING

Self-expression and individualism have firm roots in the business of music. Challenging models of postmodernism, rationalism, individualism, and themes that redefine meaning, and value are the cornerstone of the entertainment industry and specifically, the music business. “Most of the conflicts that tore the now-ending modern era were between different belief systems, each of which professed to have the truth: this faith against that one, capitalism against communism, science against religion” (Anderson, 1992). The themes of deconstructionism — challenging all that society accepts as its norms — became evident in the songs of the 1950s and 1960s. “Paramount in the postmodern shift is a reexamination of the values, beliefs, and practices perpetuated by elites that serve to suppress the expression of minority viewpoints. The importance of finding a single totalitarian truth or commonality is replaced by the realization that multiple truths exist simultaneously and that the real issue is not what the truth is but which one is being allowed to be heard. By focusing attention on social processes (e.g. power, control, conflict) operating below the surface of our awareness, postmodernism challenges the monopoly of currently dominant orthodoxies” (Bilimoria, 1995).

In the business of music, finding new ways to increase profit margins as artist royalty rates increased became a high priority. Thus, creating deductions within the contracts from the royalty rate that could be charged back to the artists’ accounts was established. Controlled Composition clauses were introduced in record label contracts in the early 1970s to reduce the royalty rate that an artist who was a songwriter would receive. “The clause requires the artist/songwriter to license such compositions to the label at a specified rate, typically three-fourths of the statutory rate at the time of release. In addition, the labels often put a limit on the total mechanical royalties payable per album of about ten times the controlled composition rate” (Hull, 1998). Charging the costs of all studio production to the artist was yet another way for the record labels to recapture the capital invested in an artist’s project. Many other reductions were implemented in order to increase the profit margin. The rationalism in record label executives was the foundation of most of the decision-making. Since record labels were in business to make money for their shareholders, then securing the profits by the most obvious means—the artist paying for everything—was the logical conclusion. However, in his book, *Ill-Gotten Gains*, Leo Katz (1999) argues that “certain acts are wrong in principle because they violate the integrity of the individual for which no greater good can compensate” (McIntyre, 1999). Nonetheless, each company accomplished their goals in their own way using different reduction methods from the artists’ royalties to obtain the same result.

Themes of modernism have been expressed in the business structure. Business has long espoused that profit is paramount in the recording industry. Therefore, functional division is the organizational structure of the conglomerate holding companies as well as for the typical record label. These divisions of labor focus on the profits that are generated from these centers. Record labels act as banks for an artist’s recording project. They “loan” the money for production, manufacturing and marketing the recording project to the artist’s account that must be paid back or *recouped*. In this, the business affairs function generates revenue from the artist.

From the artist’s point of view, postmodernism reigns. From this platform, societal norms were challenged and fought. Musical genres like jazz, blues, and rhythm & blues (which was later named rock and roll) pitted generation gaps, politics, economics, women’s rights, civil rights and many more against the what society said it should be. Lyrics to songs were rebellious and challenged authority of parents, teachers, government and society. These themes became the reality of artists, and the public, disillusioned with conformity, wanted to hear more and more of these themes. For the first time, recording artists were seen as “superstars” to be revered and almost worshipped. What they sang about was their own credo, but it echoed the voice of millions of young adults desiring change.

## ORGANIZATIONAL THEORY

Modernism may have had its most profound expression in the organizational construct of our current music business system. Many music publishers, record labels artist management companies and other support functions began as entrepreneurial ventures. Songwriters needed help in letting others know about their latest song, artists needed songs to sing, the public wanted access to the songs and to performers when they were not around.

In its infancy, the music business had no real formal structure. It conducted business by functions that needed to be fulfilled. Someone needed to write a song, someone else needed to be the artist to record the song, and yet another was needed to engineer the production of the song. Once that was completed, someone else needed to get the song to the public so they could hear it and buy it. Companies were formed in an ad hoc manner in order to create products to sell later to establish an operations structure around functions. Not everyone was expert in running all aspects of a record label and so there were more companies formed to perform functions that could not be executed by record labels. Soon, there was duplication of functions within the industry, and many conflicts of interest.

The current organizational structures of the international conglomerates and the record label divisions have been influenced by modernism. Each of the functions is clearly defined and many times separate from the other functions. These businesses may include other entertainment businesses that include theme parks, film production companies, television companies, book and magazine publishers, and retail outlets as well as consumer electronics and alcoholic beverages. As shown in Figures 1-1 and 1-2, the holding companies have other businesses other than the music group. Several businesses under the music group perform specific responsibilities that are autonomous although interacting when necessary.

The underlying assumptions of modernism that the music industry follows are:

1. Organizations are rational institutions whose primary purpose is to accomplish established objectives; rational organizational behavior is achieved best through systems of defined rules and formal authority. Organizational control and coordination are keys to maintaining organizational rationality.
2. There is a “best” structure for any organization—or at least a most appropriate structure—in light of its given objectives, the environmental conditions surrounding it, the nature of its products and/or services, and the technology of the production processes.
3. Specialization and the division of labor increase the quality and quantity of production—particularly in highly skilled operations and professions.

Most problems in an organization result from structural flaws and can be solved by changing the structure. (Shafritz and Ott, 1997, pp. 203-204). “Any major change effort must begin by describing the journey’s destination” states James Champy (Hesselbein, Goldsmith et al., 1997, p. 9). Nevertheless, in a postmodern organization, destination is not always the focus of attention. The journey itself is. How we get where we are going is equally as important as where we are going. In many cases, it is more important because the destination is unpredictable. The effective execution of the process will lead the organization in directions that can hardly be planned because of the rapidly changing environment in every phase of life.

Leaders in postmodern organizations may not be prepared to acknowledge the changes that are needed to be made in order to be effective in their organizations. If they are not ready for the changes, they may become casualties rather than the heroes of change in their organizations (Bergquist, 1993). This has been evidenced by the massive downsizing within the music industry in the past four years as conglomerates acquire competitors and merge with other conglomerates. Finding the solutions to the changing

environment within the music industry will be one of the challenges of the twenty-first century organization.

## **APPLICATION OF ETHICAL PRINCIPLES**

In the past six months, I have asked music industry executives, employees, students who are studying the music business and average consumers of recorded product their perceptions of ethical practices in the music industry. The question was never regarded as a serious one. It was usually followed by laughter and the quip, "What ethics are those?" Why does this perception pervade the majority of society? What ongoing business practices continue to give the music business a fetid reputation? What is the benchmark for ethical business practices in the music industry?

Further investigation revealed old ethical principles that are the foundation for new corporate cultures that many multinational corporations employ in maintaining a high level of ethical conduct and moral responsibility. These time-honored principles have been articulated by William J. Byron (1999) as a vehicle to recapture what has been lost. They are (1) the principle of human dignity, (2) the principle of participation, (3) the principle of integrity, (4) the principle of fairness, (5) the principle of veracity, (6) the principle of keeping commitments, (7) the principle of social responsibility, (8) the principle of subsidiarity, (9) the principle of the pursuit of the common good, and (10) the ethical principle of love (Byron, 1999). Using these ten principles as a benchmark for implementing ethical protocols in the music industry can greatly improve the compliance with accepted protocols worldwide, and improve the perception in the opinion of the public.

The last decade has seen a trend in corporate downsizing at the end of a process that has come to be known as delayering, restructuring or reengineering. MCA Records underwent a massive reengineering process by its parent company, Seagram's, Inc., in 1996 and 1997. During that time, many contracts of essential employees were not renewed. These mechanistic metaphors only mask the human drama that each of the employees experienced as a result of shrinking the workforce. Gerald Levin, CEO of Time Warner, Inc., began a training session with all the leading executives on the company's "core values and guiding principles" (Shapiro, 1999). His goal was to attract talented, young people with strong ideals in a competitive job market.

Corporate mergers have been utilized within the entertainment industry as a means to leverage market share and industry dominance. Recently, Warner Bros. and America Online merged to form the largest entertainment company in the world. In doing so, many have raised ethical issues of fairness, content control, and limited consumer freedom to name a few. In addition, The Walt Disney Company and American Broadcast Company, Inc. were fined and banned from broadcast for twenty-four hours by the Federal Communications Commission (FCC) during the 2000 sweeps due to claims of too much content control of viewing content during the ratings period.

Against that backdrop, I would like to compare these ethical principles with the opportunities available to the entertainment industry, in particular, the music industry.

## **HUMAN DIGNITY**

This is the foundation of all ethical conduct – personal and social. The value we place on individuals is crucial to the success of our organizations. Music industry employees have been made to feel as if their contribution to the organization is disposable. Recent downsizing of thousands of employees after decades of service as a result of the merger of MCA Records and PolyGram Records has placed uncertainty in the minds of employees throughout the industry as to their worth in their companies. No doubt, due to better opportunities and advancement, employees will sever working relationships with their employers in the future; it is still never dignifying to be viewed as a disposable commodity.

## **PARTICIPATION**

All stakeholders in an organization have the right to be involved in discussions that involve their livelihood. Not allowing them a voice in those discussions is a violation of human dignity. It is inevitable that companies may have to replace or eliminate suppliers and employees in order to remain competitive in this rapidly changing marketplace. Involving stakeholders in the separation process is the ethical thing to do. Releasing an exclusive songwriter from a music publisher's roster with a thirty-day notice can hardly be considered to be in their best interest. If the music publisher were to allow the songwriter time in which to find another company or to phase them out slowly over time may be one option to a challenging decision.

## **INTEGRITY**

The old adage of honesty being the best policy works best when all parties of the employment equation adhere to it. Promotion employees who give away CDs that are designated "For Promotional Use Only," do a disservice to the artists who have paid for those products to be manufactured, yet are not receiving any royalties from their sale. Likewise, retail owners who sell these products deceive their customers as well as cheat the economy by increasing their revenues and not reporting it to the Internal Revenue Service (IRS).

## **FAIRNESS AND JUSTICE**

Our sense of what is fair and just is part of our cultural identity. We have those principles instilled in us from an early age. The personal manager who does not break a trust or participates in an illegal use of resources will not have to worry about being sued by their client for embezzlement of their artist's funds. Accepting the contractual fee or percentage for duties performed within the scope of their employment is a powerful tool for establishing trust with their client and the industry. Once trust is breached, it is difficult to reestablish. It may take years to create an environment of trust with an artist and the other members of the management team where the talent agent, attorney, artist, personal manager and business manager trust one another. One breach of a fiduciary relationship can end many years of loyal and devoted service.

## **VERACITY**

There is a marked difference between integrity and veracity that should be noted. You may question why I include veracity when I have already listed integrity. Integrity implies a lifestyle of honesty, while veracity clearly means speaking truthfully. The record label executive who misleads a potential client into signing an agreement without fully understanding all the ramifications of their actions is not a veracious person.

One of the hardest things to do is to tell the truth in every situation. It is difficult in business when you can see that by not disclosing all the information or making statements that are not entirely accurate may yield the publicity coverage that is desired for your artist or client. However, possessing a clear conscience is worth more than any cover story. Personal veracity is a treasure amid the lost trails of hype and exaggerations of the media.

## **KEEPING COMMITMENTS**

Commitments are the bonds of personal and social relationships. Breaking commitments because of a personal inconvenience is disrespecting the one to whom the commitment was made. The other party has the right to expect you to stand by your word. However, when the word of an individual is broken, again, trust is broken. We are no greater than our kept commitments.

Artists who cancel concert dates because of weak sales may do more damage to their career. It may be best to perform in a venue for which you have not completely sold out, instead of canceling the date and disappointing the fans. Once fans have been burned, it is virtually impossible to regain their support. Many artists' careers have been stopped short of success due to broken commitments and promises.

## **CORPORATE SOCIAL RESPONSIBILITY**

In a knowledge economy like ours, it is important to care for the casualties that occur along the way. This involves more than just doing what is within the law. We must incorporate education in every aspect of being in the entertainment business. We become good corporate citizens by showing the artists who must be released from their contracts how to improve their talents in order to be picked up by another label; personal managers who allow their artists to perform benefit concerts when there is no press coverage to hype a good deed; talent agencies who donate their time and skills to help unsigned talent.

## **SUBSIDIARITY**

There is an old saying that goes "Don't put off the good that you can do today for the pleasure you can have tomorrow." Being a good corporate citizen also means not waiting on government to create the opportunities that we can create ourselves. The principle of subsidiarity is the embodiment of a proactive decision-making and an action plan at the level where it is most efficient and effective. That usually occurs on the lower levels of an organization. Therefore, this would grant a voice to the field representatives of entertainment distribution companies who see where the organization can be made more efficient and effective by new hires to handle increased volumes of inventory.

## **PURSUIT OF THE COMMON GOOD**

As we strive to be ethical with everyone in the organization, it is essential to pursue the common good as well. This is the undercurrent of all of our policies and business practices. "The common good is a catch-all phrase that describes an environment that is supportive of the development of human potential while safeguarding the community against individual excess" (Byron, 1999, p. 561).

Being a good corporate citizen means more than just donating computer equipment to local area schools. It means that there is an understanding between the business entities and the communities in which they reside. This understanding is a central focus of the company in supporting the community in ways that are beneficial for everyone and not just a select few. As well as its commitment to excellence in business, focusing on the common good is another way that the entertainment industry can take responsibility for the products it produces and markets to the community.

## **LOVE**

Doing what is right because it is the right thing to do characterizes the highest ideal of humanity. The final principle is based on the law of love that many believe is the foundation of all humanity. As the music industry produces products for public consumption, it is important to remember that though there is



freedom of expression, not all expressions are appropriate for consumption. Love is sacrifice of what we feel we are entitled to for what is best for others. Allowing this principle to flourish in the office among employees has the potential of laying the foundation for the emerging postmodern organization structures to take a hold within our organizations. It also has the potential of transforming our communities and culture, as we know it.

## **CONCLUSION**

The epistemological foundation and ethical issues have been cloudy in the entertainment industry almost since its inception. What is seen as being of value and having meaning has shaped an industry that has a low degree of regulation and a high degree of internationalization. Industry “standards” have not always paralleled other business entities as to ethical business protocols. We must begin to envisage this industry differently as we enter a new era of business. “Metaphor gives us the opportunity to stretch our thinking and deepen our understanding, thereby allowing us to see things in new ways and to act in new ways” (Morgan, 1986, p. 5). As we stretch our thinking to embrace other ways of seeing the organizations in which we work, we expand our view of ourselves and our affect on those with whom we work and the world in which we live.

By implementing basic ethical principles into the culture of the entertainment business, positive changes can occur that will affect employees, artists, executives, and the community. These can lead to positive results in business and community relations for years to come.

Figure 1-1

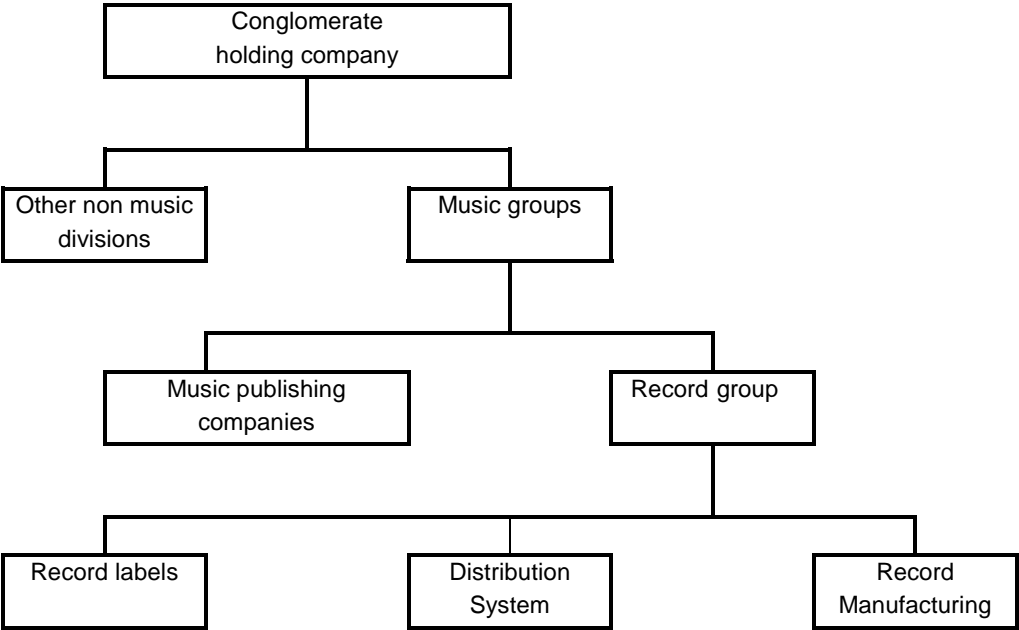
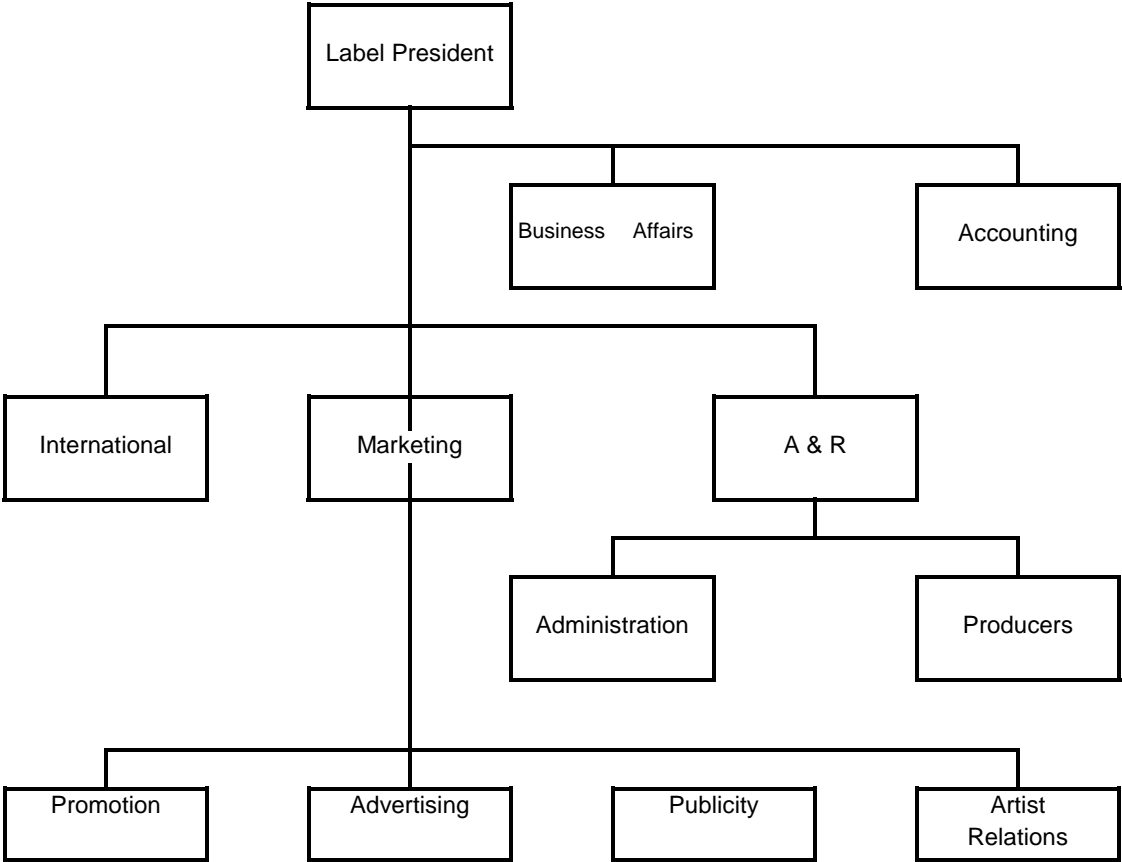


Figure 1-2



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